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**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**FINANCIAL STATEMENTS OF SELECTED FUNDS AND  
SUPPLEMENTARY INFORMATION  
AND  
INDEPENDENT AUDITOR'S REPORT**

**JUNE 30, 2021**

## CONTENTS

<b><u>DESCRIPTION</u></b>	<b><u>PAGE</u></b>
<b>INDEPENDENT AUDITOR'S REPORT</b>	<b>1</b>
<b>FINANCIAL STATEMENTS OF SELECTED FUNDS:</b>	
<b>Governmental Funds Financial Statements:</b>	
Balance Sheet	3
Statement of Revenues, Expenditures, and Changes in Fund Balances	4
<b>Notes to Financial Statements</b>	<b>6</b>
<b>INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF CHANGES IN CAPITAL ASSETS AND THE SCHEDULE OF CHANGES IN NOTES PAYABLE</b>	<b>22</b>
<b>Schedules:</b>	
Schedule of Changes in Capital Assets	24
Schedule of Changes in Notes Payable	25
<b>Notes to Schedules</b>	<b>26</b>
<b>INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</b>	<b>30</b>



CPAs & Advisors

## **INDEPENDENT AUDITOR'S REPORT**

To the Mississippi Department of Transportation and  
Mississippi Transportation Commission  
401 North West Street  
Jackson, MS 39201

We have audited the accompanying financial statements of the selected general funds 3394100000 and 5394100000 (the financial statements) of the Mississippi Department of Transportation (MDOT), as of and for the year ended June 30, 2021, and the related notes to the financial statements. The financial statements, including the related notes to the financial statements, will be consolidated into the State of Mississippi's Annual Comprehensive Financial Report.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

**Auditor's Responsibility - continued:**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the selected general funds 3394100000 and 5394100000 of the Mississippi Department of Transportation, as of June 30, 2021, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1, the financial statements of the selected general funds 3394100000 and 5394100000 of MDOT are intended to present the financial position and the changes in financial position of only that portion of the governmental activities of MDOT that is attributable to the transactions of the selected general funds 3394100000 and 5394100000. They do not purport to, and do not present fairly the financial position of MDOT or the State of Mississippi as of June 30, 2021, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matter**

Management has omitted the Management Discussion and Analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinions on the financial statements are not affected by the missing information.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2022, on our consideration of MDOT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MDOT's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDOT's internal control over financial reporting and compliance.

*Haddox Reid Embank Beth PLLC*

Jackson, Mississippi  
February 14, 2022

**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**BALANCE SHEET  
SELECTED GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2021**

	<b>General Funds 3394100000 and 5394100000</b>
<b>ASSETS:</b>	
Equity in State Treasury Funds	\$ 158,274,917
Cash and cash equivalents	49,960,545
Receivables, net	20,297,109
Due from other governments, net	48,332,327
Due from other funds	7,812,296
Due from component units	29,169
Inventories	<u>16,367,806</u>
Total assets	\$ <u><u>301,074,169</u></u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	
Liabilities:	
Warrants payable	\$ 7,590,307
Accounts payable and accruals	20,941,661
Contracts payable	58,163,629
Due to other governments	3,085,616
Due to other funds	7,116,563
Due to component units	<u>1,196,798</u>
Total liabilities	<u>98,094,574</u>
Deferred inflows of resources:	
Unavailable revenues	<u>19,474,772</u>
Fund balances:	
Nonspendable:	
Inventories	16,367,806
Restricted:	
Transportation	<u>167,137,017</u>
Total fund balances	<u>183,504,823</u>
Total liabilities, deferred inflows of resources and fund balances	\$ <u><u>301,074,169</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES  
SELECTED GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2021**

	<b>General Funds 3394100000 and 5394100000</b>
<hr/>	
<b>Revenues:</b>	
Taxes:	
Sales and use	\$ 18,884,346
Gasoline and other motor fuel	314,872,914
Other	83,972,960
Licenses, fees and permits	25,951,902
Federal government	610,813,284
Investment income	7,419,970
Charges for sales and services	5,063,399
Rentals	18,294
Other	530,912
Total revenues	<hr/> 1,067,527,981
<b>Expenditures:</b>	
Transportation:	
Salaries and fringe benefits	161,601,674
Travel	814,423
Contractual services	125,717,781
Commodities	38,481,241
Capital outlay	656,378,243
Subsidies, loans and grants	6,633,916
Total transportation	<hr/> 989,627,278
Debt service:	
Principal	40,413,520
Interest and other fiscal charges	30,327,300
Total expenditures	<hr/> 1,060,368,098
Excess of revenues over expenditures	<hr/> 7,159,883



**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - CONTINUED:  
SELECTED GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2021**

	<b>General Funds 3394100000 and 5394100000</b>
	<hr/>
<b>Other Financing Sources (Uses):</b>	
Transfers in	\$ 75,315,092
Transfers out	<u>(47,636,182)</u>
Net other financing sources	<u>27,678,910</u>
 Net change in fund balances	 34,838,793
 Fund balances - beginning	 <u>148,666,030</u>
Fund balances - ending	\$ <u><u>183,504,823</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS OF SELECTED FUNDS  
JUNE 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Background Information**

The Mississippi Department of Transportation (MDOT) is responsible for providing a safe intermodal network that is planned, designed, constructed and maintained in an effective, cost efficient, and environmentally sensitive manner. The State of Mississippi vests oversight of its transportation resources and operations in a three-member elected commission representing three geographic areas in the state as defined by the Supreme Court Districts: Central (Supreme Court District 1), Southern (Supreme Court District 2) and Northern (Supreme Court District 3). The Commissioners have the authority and responsibility for the supervision of all modes of transportation in the state dealing with aeronautics, highways, public transit, ports and railroads. In accordance with state law, the Commission is responsible for planning, developing and coordinating a comprehensive, balanced intermodal transportation policy for the state. The Commission membership appoints its Chairman. The Commission appoints an Executive Director of MDOT to carry out the day-to-day policies and procedures of the agency.

MDOT is funded through appropriations by the U.S. Congress and the Mississippi Legislature. The U.S. Congress provides funding through the Federal Highway Administration (FHWA), the Federal Transit Administration (FTA), the Federal Railroad Administration (FRA), and the Federal Aviation Administration (FAA). The Mississippi Legislature provides state funding through motor fuel taxes and other fees. MDOT is also funded through receipts derived from other dedicated state taxes such as truck and bus fees; the privilege tax; weight and size permits; trip permits; a contractor's tax of 3.5 percent assessed on certain highway construction contracts; a \$5 per vehicle tag registration fee; and a lubricating oil tax. MDOT also receives a portion of Lottery proceeds, investment income and interest income.

**B. Financial Reporting Entity**

MDOT is a state agency included in the State of Mississippi's Annual Comprehensive Financial Report. The selected general funds presented in these financial statements are part of the larger entity that in whole comprises the financial reporting entity of the Mississippi Department of Transportation.

**Purpose of General Funds 3394100000 and 5394100000**

Fund 3394100000 - MDOT Support Services General Fund is used primarily to record MDOT's administrative expenses and cost share match for federal grants. This fund is also used to record receipt of the taxes, fees, proceeds, investment income and interest income identified above.

**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS OF SELECTED FUNDS  
JUNE 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:**

**B. Financial Reporting Entity - continued:**

**Purpose of General Funds 3394100000 and 5394100000 - continued:**

Fund 5394100000 - MDOT Federal Grant General Fund is used to receive and expend federal grant funds.

**C. Basis of Presentation**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles.

**D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Governmental fund financial statements are reported using a current financial resources measurement focus and the modified accrual basis of accounting. Assets, deferred outflows of resources, liabilities and deferred inflows of resources are included on the balance sheet as applicable. Revenues are recognized when measurable and available to finance operations of the current fiscal year. Available means collectible within the current year or soon enough after fiscal year end to liquidate liabilities existing at the end of the fiscal year. The State considers revenues received within 60 days after fiscal year end as available. Significant revenue sources that are susceptible to accrual include sales taxes and federal grants. Licenses, fees, permits and other miscellaneous revenues are recognized when received since they normally are measurable only at that time. Expenditures are recognized upon receipt of goods and services.

**E. Use of Estimates**

The preparation of financial statements, in conformity with U.S. generally accepted accounting principles, requires MDOT to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and other changes in fund balances during the period. Actual results could differ from those estimates.

**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS OF SELECTED FUNDS  
JUNE 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:**

**F. Equity in State Treasury Funds and Cash and Cash Equivalents**

Equity in State Treasury Funds consists of pooled cash held by the Treasurer of the State of Mississippi. Cash and cash equivalents include bank accounts, petty cash, and money market mutual funds.

**G. Fair Value Measurements**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB establishes a fair value reporting hierarchy to maximize the use of observable inputs when measuring fair value and defines the three levels of inputs as noted below:

Level 1 - Assets or liabilities for which the identical item is traded on an active exchange, such as publicly-traded instruments or futures contracts.

Level 2 - Assets and liabilities valued based on observable market data for similar instruments. Fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for assets and liabilities, either directly or indirectly.

Level 3 - Assets or liabilities for which significant valuation assumptions are not readily observable in the market and instruments, which are valued based on the best available data. Fair value is estimated using unobservable inputs that are significant to the fair value of the assets or liabilities. Level 3 assets may include instruments for which the determination of fair value requires significant management judgment or estimation.

**H. Receivables**

Receivables are reported net of an allowance for uncollectible accounts, where applicable. The details of the receivables and uncollectible amounts as of June 30, 2021 are reported in Note 4.

**I. Inventories**

Cost of inventories held for use by MDOT is determined by the weighted average method. Inventories of supplies and materials are recorded as expenditures when consumed rather than when purchased.

STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION

NOTES TO FINANCIAL STATEMENTS OF SELECTED FUNDS  
JUNE 30, 2021

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:**

**J. Deferred Inflows of Resources**

Unavailable revenues are reported in the governmental fund financial statements as deferred inflows of resources until such time as the revenues become available.

**K. Fund Balance**

Fund balance is the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources on governmental funds financial statements. Fund balances of governmental funds are classified as:

Nonspendable - amounts that cannot be spent because they are not in a spendable form (not expected to be converted to cash) or are legally required to be maintained intact. Examples include inventories.

Restricted - amounts where legally enforceable constraints are imposed by an external party such as a grantor, or by the constitution, or by the State Legislature at the same time the revenue is created.

**L. Federal Grants**

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

**M. Bonds and Notes**

Bond and note proceeds, premiums and discounts are reported as other financing sources or uses in the governmental fund financial statements. Issuance costs are recognized as debt service expenditures/expenses in the period incurred.

**N. New Accounting Standards**

**Recently Adopted Accounting Pronouncements**

The State of Mississippi implemented GASB Statement No. 84 in fiscal year 2021. GASB Statement No. 84, *Fiduciary Activities*, issued January 2017, contains requirements that

**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS OF SELECTED FUNDS  
JUNE 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:**

**N. New Accounting Standards - continued:**

**Recently Adopted Accounting Pronouncements - continued:**

will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhance the value provided by the information reported in financial statements for assessing government accountability and stewardship. The requirements of this standard had no impact on the selected general fund financial statements or schedules.

GASB Statement No. 90, *Majority Equity Interests as an amendment of GASB Statements No. 14 and No. 61*, issued August 2018, became effective for the year ended June 30, 2021. The statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and also improves the relevance of the financial statement information for certain component units. This statement is not applicable to MDOT at this time.

The State of Mississippi elected to early implement GASB Statement No. 98, *The Annual Comprehensive Financial Report*, issued October 2021. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. This new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.

**Recently Issued Accounting Pronouncements**

GASB Statement No. 87, *Leases*, issued June 2017, will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. However, the effective date of this pronouncement was postponed by Statement No. 95 in May 2020 until reporting periods beginning after June 15, 2021. Management is currently evaluating the impact of the adoption of this Statement on MDOT's financial statements.

**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS OF SELECTED FUNDS  
JUNE 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:**

**N. New Accounting Standards - continued:**

**Recently Issued Accounting Pronouncements - continued:**

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, issued June 2018, enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for periods beginning after December 15, 2019. However, the effective date of this pronouncement was postponed by Statement No. 95 in May 2020 until reporting periods beginning after December 15, 2020. Management is currently evaluating the impact of the adoption of this Statement on MDOT's financial statements.

GASB Statement No. 91, *Conduit Debt Obligations*, issued May 2019, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for periods beginning after December 15, 2020. However, the effective date of this pronouncement was postponed by Statement No. 95 in May 2020 until reporting periods beginning after December 15, 2021. Management is currently evaluating the impact of the adoption of this Statement on MDOT's financial statements.

GASB Statement No. 92, *Omnibus 2020*, issued January 2020, enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021. However, the effective date of this pronouncement was postponed by Statement No. 95 in May 2020 until reporting periods beginning after June 15, 2022. Management is currently evaluating the impact of the adoption of this Statement on MDOT's financial statements.

STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION

NOTES TO FINANCIAL STATEMENTS OF SELECTED FUNDS  
JUNE 30, 2021

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:**

**N. New Accounting Standards - continued:**

**Recently Issued Accounting Pronouncements - continued:**

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, issued March 2020, addresses certain debt instruments that some governments have entered into in which variable payments made or received depend on an interbank offered rate (IBOR) - most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. However, the effective date of this pronouncement was postponed by Statement No. 95 in May 2020 until reporting periods beginning after June 15, 2021. Management is currently evaluating the impact of the adoption of this Statement on MDOT's financial statements.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, issued March 2020, with the primary objective to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. The requirements of this Statement are effective for periods beginning after June 15, 2022. Management is currently evaluating the impact of the adoption of this Statement on MDOT's financial statements.



**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS OF SELECTED FUNDS  
JUNE 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:**

**N. New Accounting Standards - continued:**

**Recently Issued Accounting Pronouncements - continued:**

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, issued May 2020, this Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for periods beginning after June 15, 2022. Management is currently evaluating the impact of the adoption of this Statement on MDOT's financial statements.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, issued June 2020, (1) increases consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigates costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhances the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements in (1) paragraph 4 of this Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (2) paragraph 5 of this Statement are effective immediately. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021. The effects of paragraph 4 and 5 of this Statement do not have a material impact on MDOT's financial statements. Management is currently evaluating the impact of the adoption of the other requirements of this Statement on MDOT's financial statements.

**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS OF SELECTED FUNDS  
JUNE 30, 2021**

**NOTE 2 - INTERFUND TRANSACTIONS**

As of June 30, 2021, interfund receivables and interfund payables consisted of:

Agency	Due From
Department of Finance and Administration	\$ 6,794,486
East Mississippi State Hospital	13,768
Mississippi Department of Transportation-Other Funds	558,077
Mississippi Development Authority	232,624
Mississippi Emergency Management Agency	160,556
Office of State Aid Road Construction	22,464
Office of the State Treasurer	24,338
Yellow Creek State Inland Port	5,983
Total Due From	\$ <u>7,812,296</u>

Agency	Due To
Department of Finance and Administration	\$ 3,143,949
Department of Information Technology Services	125
Department of Mental Health - Region 1	10,032
Department of Mental Health - Region 4	38,998
Office of State Aid Road Construction	3,903,469
Office of the State Auditor	18,927
Public Service Commission	1,063
Total Due To	\$ <u>7,116,563</u>

Interfund receivables and payables are the results of timing differences between the date expenditures occur and the date payments are made in the following fiscal year. All amounts due to MDOT are expected to be collected in fiscal year 2022, except for the \$6,794,486 due from the Department of Finance and Administration (DFA). In 1992, Senate Bill 2702 directed MDOT to make a \$12,000,000 loan to the DFA State General Fund 2999000000, which was supposed to be repaid by June 30, 1993. However, only \$5,205,514 was repaid to MDOT, with the last payment made approximately twenty years ago. The remaining balance of the loan is not expected to be repaid by the State General Fund at the present time. In accordance with the Mississippi Constitution, Article 4, Section 100, the remaining balance due is not permitted to be "extinguished except by payment," nor is the balance due permitted to be "exchanged or transferred except upon payment of its face value." Therefore, the balance remains a due from balance on MDOT's General Fund 3394100000 and a due to balance on

**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS OF SELECTED FUNDS  
JUNE 30, 2021**

**NOTE 2 - INTERFUND TRANSACTIONS - CONTINUED:**

the State General Fund. Because both of these funds are general funds, the due to and due from amounts eliminate in the consolidated State of Mississippi Annual Comprehensive Financial Report.

For the year ended June 30, 2021, interfund transfers consisted of:

<u>Agency</u>	<u>Transfers-In</u>
Department of Finance and Administration	\$ 64,520,915
Mississippi Department of Transportation-Other Funds	7,831,758
Mississippi Development Authority	364,385
Mississippi Emergency Management Agency	586,095
Office of State Aid Road Construction	<u>2,011,939</u>
Total Transfers-In	\$ <u>75,315,092</u>
<u>Agency</u>	<u>Transfers-Out</u>
Department of Agriculture and Commerce	\$ 650,000
Department of Environmental Quality	5,250
Department of Finance and Administration	121,557
Mississippi Department of Transportation-Other Funds	3,102,025
Mississippi Development Authority	800,000
Office of State Aid Road Construction	37,957,350
Office of the State Treasurer	<u>5,000,000</u>
Total Transfers-Out	\$ <u>47,636,182</u>

Interfund transfers are primarily used to 1) move revenues from funds required to collect them to funds required to expend them, 2) use revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) transfer capital facility construction and debt service expenditures to the funds making the payments.

**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS OF SELECTED FUNDS  
JUNE 30, 2021**

**NOTE 2 - INTERFUND TRANSACTIONS - CONTINUED:**

At June 30, 2021, amounts due from/to various component units consisted of:

<u>Component Unit</u>	<u>Due From</u>
East Central Community College	\$ 25,916
University of Mississippi	<u>3,253</u>
Total Due From	\$ <u>29,169</u>

  

<u>Component Unit</u>	<u>Due To</u>
Delta State University	\$ 6,523
Mississippi State University	1,137,636
University of Mississippi	1,556
University of Southern Mississippi	<u>51,083</u>
Total Due To	\$ <u>1,196,798</u>

Amounts due to and due from the primary government and component units are the results of timing differences between the date expenses/expenditures occur and the date payments are made.

**NOTE 3 - DEPOSITS**

Section 27-105-5, Mississippi Code Ann. (1972) authorizes the State Treasurer to implement a statewide collateral pool program which secures all state and local public fund deposits through a centralized system of pledging securities to the State Treasurer. The program requires the State Treasurer as pledgee of all public funds to monitor the security portfolios of approved financial institutions and ensure public funds are adequately secured.

Section 27-105-5, Mississippi Code Ann. (1972) establishes the requirements for a financial institution to be approved as a qualified public funds depository. Generally, financial institutions make annual application to the State Treasurer for state funds by signing a contract and supplying the financial report as provided to its regulatory authority to assure the statutory required 5.5 percent primary capital to total assets ratio. When so approved by the State Treasurer, the financial institution is required to place on deposit with the State Treasurer collateral equal to at least 105 percent of the amount of public funds on deposit in excess of the amount insured by

**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS OF SELECTED FUNDS  
JUNE 30, 2021**

**NOTE 3 - DEPOSITS - CONTINUED:**

the Federal Deposit Insurance Corporation (FDIC). Collateral may be held by a third-party custodian, with approval of the State Treasurer, if conditions are met which protect the State's interests.

Sections 27-105-5 and 27-105-6, Mississippi Code Ann. (1972) establish a public funds guaranty pool administered by the Guaranty Pool Board and the State Treasurer. The Guaranty Pool Board is composed of the State Treasurer, Commissioner of Banking and Consumer Finance, five members nominated by the Mississippi Bankers Association, one member nominated by the Mississippi Supervisors Association, and one member nominated by the Mississippi Municipal League. The Guaranty Pool Board is responsible for reviewing and recommending criteria to be used by the State Treasurer in order to protect public deposits and the depositories in the guaranty pool program.

Sections 27-105-5 and 27-105-6, Mississippi Code Ann. (1972) establish criteria for a financial institution that has been in existence for three years or more to be approved as a qualified public funds depository and a public funds guaranty pool member. Potential guaranty pool members must submit an application and supply financial information to the State Treasurer as provided to its regulatory authority to verify the institution meets certain financial criteria established in the law. In addition to the requirements in the law, the Guaranty Pool Board has established additional membership requirements pursuant to its statutory authority. Once approved as a member of the public funds guaranty pool, the members must submit quarterly financial information to the State Treasurer. The Guaranty Pool Board uses this information to monitor the financial status of each member and the fiscal soundness of the guaranty pool.

Under the criteria established by the Guaranty Pool Board, an approved guaranty pool member must meet the 75 percent security requirement by depositing eligible collateral with the State Treasurer (or an approved custodian). The agreement provides that if a loss to a public depositor in the guaranty pool is not covered by deposit insurance and the proceeds from the sale of securities pledged by the defaulting depository, the difference will be provided by an assessment against other guaranty pool members on a pro rata basis.

Custodial credit risk for deposits is the risk that in the event of the failure of a financial institution, MDOT will not be able to recover deposits or collateral securities that are in the possession of an outside party. Of MDOT's cash deposits as of June 30, 2021, \$17,455,706 was uninsured and collateral held by the pledging financial institution's trust department or agent was not in MDOT's name.

**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS OF SELECTED FUNDS  
JUNE 30, 2021**

**NOTE 4 - RECEIVABLES**

At June 30, 2021, receivables consisted of:

Accounts	\$ 22,489,963
Interest	665
Other	<u>70,000</u>
Gross receivables	22,560,628
Allowance for uncollectibles	<u>(2,263,519)</u>
Receivables, net	\$ <u>20,297,109</u>

**NOTE 5 - DUE FROM OTHER GOVERNMENTS**

At June 30, 2021, due from other governments consisted of:

Due from other governments	\$ 48,387,546
Allowance for uncollectibles	<u>(55,219)</u>
Due from other governments, net	\$ <u>48,332,327</u>

**NOTE 6 - RETIREMENT PLANS**

MDOT contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, Mississippi 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

PERS members are required to contribute 9.00% of their annual covered salary and the Agency is required to contribute at an actuarially determined rate. The current rate is 17.4% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. For the year ended June 30, 2021, MDOT contributed \$20,277,392 to PERS for the general funds included in these financial statements.

**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS OF SELECTED FUNDS  
JUNE 30, 2021**

**NOTE 7 - COMMITMENTS**

At June 30, 2021, MDOT had contracts outstanding of approximately \$915,631,000 with performance continuing during fiscal year 2022. Of this amount \$62,862,000 is related to local public agencies, such as planning and development districts, counties and municipalities. These contracts were primarily for construction, repair and maintenance and will be paid through the selected general funds. Approximately 65 percent of future expenditures related to these commitments are expected to be reimbursed from proceeds of federal grants when the actual costs are incurred. The remaining portion will be funded by specific gasoline taxes.

**NOTE 8 - RISK MANAGEMENT**

MDOT is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The State has elected to finance most exposures to risk through the retention of risk. The State utilizes the Risk Management Fund to account for these activities with the noted exception in workers' compensation benefits.

**Health and Life Benefits:** State law mandates that all employees of state, public education, library, junior and community college and retiring employees be offered health and life benefit coverage. The State has elected to manage the cost of all required health benefits through the retention of all exposure. The life benefit is insured through the purchase of commercial insurance for death benefit distribution under tax law but management of the risk is accomplished by self insuring within an insured shell.

**Tort Liability:** The State manages tort claims through the retention of all liability exposure. The State Legislature created the Tort Claims Board to administer these claims beginning in fiscal year 1994. Statutory regulations provide some protection, as well as a limitation of liability, for claims filed against state agencies and state employees. Claim payments are financed by the State through an annual assessment to all state agencies based on amount of payroll and past loss history.

**Unemployment Benefits:** Unemployment benefits are established in statute and administered by the Mississippi Department of Employment Security. The State elects to manage the financial risk for state agencies through retention of all liability exposure. Benefits are financed by the State through collection of premiums from agencies, which provides a stable cash flow for payment of claims.

**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS OF SELECTED FUNDS  
JUNE 30, 2021**

**NOTE 8 - RISK MANAGEMENT - CONTINUED:**

**Workers' Compensation Benefits:** Workers' compensation benefits are established in statute and the rules and regulations are established by the Mississippi Workers' Compensation Commission and the Mississippi State Agencies Self-Insured Workers' Compensation Trust Board of Trustees. The exposure of risk in the Risk Management Fund is financed by the State mostly through retention of all exposure, with limited purchase of commercial excess insurance. The benefits are financed through collection of premiums based on an actuarial estimate from agencies which provides a stable cash flow for claims payments.

**NOTE 9 - CONTINGENCIES**

**Federal Grants** - MDOT has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from an audit may become a liability of MDOT. MDOT estimates that the ultimate disallowance pertaining to these grants, if any, will be immaterial to its overall financial condition.

**Litigation** - MDOT is party to various legal proceedings that arise in the normal course of governmental operations. If an unfavorable outcome of the litigation is determined to be likely and probable, MDOT will record a liability to reflect the estimated outcome of the litigation. All litigation is handled through the State's Attorney General's Office (AGO). The AGO believes that they will be successful in defending MDOT in a majority of these cases, and the ultimate disposition of these matters will not have a material adverse effect on the financial position of MDOT.

**COVID-19** - On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a global pandemic, which has spread throughout the United States and around the world. MDOT is aware of changes in its operations as a result of COVID-19 but believes any impact on MDOT's financial statements for the selected general funds have been minimal. Management also believes any future disruption, when and if experienced, would be temporary; however, there is uncertainty around when any future disruptions might occur, the duration, and hence, the potential impact. While the ultimate potential impact cannot be estimated at the time, management does not currently anticipate a material adverse effect on MDOT's financial statements for the selected general funds.



**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**NOTES TO FINANCIAL STATEMENTS OF SELECTED FUNDS  
JUNE 30, 2021**

**NOTE 10 - SUBSEQUENT EVENTS**

MDOT has evaluated subsequent events through February 14, 2022, the date the selected general fund financial statements were approved by MDOT's management and thereby available to be issued, and has determined that there are no subsequent events of a material nature requiring adjustment to or disclosure in the accompanying selected general fund financial statements.

**INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF CHANGES  
IN CAPITAL ASSETS AND SCHEDULE OF CHANGES IN NOTES PAYABLE**

To the Mississippi Department of Transportation and  
Mississippi Transportation Commission  
401 North West Street  
Jackson, MS 39201

We have audited the accompanying schedule of changes in capital assets and the schedule of changes in notes payable (the schedules) that are the direct result of the cumulative activity of the selected general funds 3394100000 and 5394100000 of the Mississippi Department of Transportation (MDOT), as of and for the year ended June 30, 2021, and the related notes to the schedules. The schedules, including the related notes to the schedules, are presented for the purpose of assisting the State of Mississippi in preparation of its Annual Comprehensive Financial Report and are not a required part of the general fund financial statements.

**Management's Responsibility for the Schedules**

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on the schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's

**Auditor's Responsibility - continued:**

preparation and fair presentation of the schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinions**

In our opinion, the schedule of changes in capital assets and the schedule of changes in notes payable referred to above present fairly, in all material respects, the balance of and the changes in the capital assets and notes payable of the Mississippi Department of Transportation general funds 3394100000 and 5394100000 selected for audit, as of June 30, 2021, in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

The schedule of changes in capital assets and the schedule of changes in notes payable referred to above are intended to present only the changes in capital assets and changes in notes payable of the general funds 3394100000 and 5394100000 selected for audit. The schedules are not intended to present the financial position and results of operations of the State of Mississippi or the MDOT.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2022, on our consideration of MDOT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of MDOT's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MDOT's internal control over financial reporting and compliance.

*Haddox Reid Erbank Betts PLLC*

Jackson, Mississippi  
February 14, 2022

**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**SCHEDULE OF CHANGES IN CAPITAL ASSETS  
GENERAL FUNDS 3394100000 AND 5394100000  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Balance at July 1, 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2021</u>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 2,228,220,777	16,948,547	919,276	2,244,250,048
Construction in progress	3,942,390,853	733,346,948	1,325,751,254	3,349,986,547
Total capital assets not being depreciated	<u>6,170,611,630</u>	<u>750,295,495</u>	<u>1,326,670,530</u>	<u>5,594,236,595</u>
Capital assets being depreciated:				
Buildings	206,451,772	5,277,612	267,777	211,461,607
Land improvements	107,576,861	2,166,801	-	109,743,662
Machinery and equipment	154,413,311	11,669,638	3,755,021	162,327,928
Infrastructure	12,677,077,160	1,316,261,602	255,890,951	13,737,447,811
Total capital assets being depreciated	<u>13,145,519,104</u>	<u>1,335,375,653</u>	<u>259,913,749</u>	<u>14,220,981,008</u>
Less accumulated depreciation for:				
Buildings	61,637,318	4,054,024	148,707	65,542,635
Land improvements	56,801,055	3,975,721	-	60,776,776
Machinery and equipment	97,315,478	11,048,751	3,086,492	105,277,737
Infrastructure	4,417,848,463	510,663,594	255,890,951	4,672,621,106
Total accumulated depreciation	<u>4,633,602,314</u>	<u>529,742,090</u>	<u>259,126,150</u>	<u>4,904,218,254</u>
Total capital assets being depreciated, net	<u>8,511,916,790</u>	<u>805,633,563</u>	<u>787,599</u>	<u>9,316,762,754</u>
Governmental activities capital assets, net	\$ <u>14,682,528,420</u>	<u>1,555,929,058</u>	<u>1,327,458,129</u>	<u>14,910,999,349</u>

The accompanying notes to the schedules are an integral part of this schedule.

**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**SCHEDULE OF CHANGES IN NOTES PAYABLE  
GENERAL FUNDS 3394100000 AND 5394100000  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2021**

	<b>Beginning Balance <u>July 1, 2020</u></b>	<b>Additions/ <u>Proceeds</u></b>	<b>Reductions/ <u>Payments</u></b>	<b>Ending Balance <u>June 30, 2021</u></b>	<b>Due Within <u>One Year</u></b>
Desoto Series 2010B	\$ 136,780,000	-	-	136,780,000	-
Premium on bond	11,534	-	793	10,741	793
Desoto Series 2014	14,455,000	-	4,585,000	9,870,000	4,815,000
Premium on bond	6,995,696	-	736,604	6,259,092	736,604
Desoto Series 2015A	21,965,000	-	1,035,000	20,930,000	1,085,000
Premium on bond	4,656,047	-	321,045	4,335,002	321,045
Desoto Series 2017A	37,240,000	-	2,345,000	34,895,000	2,450,000
Premium on bond	3,676,217	-	319,594	3,356,623	319,594
Desoto Series 2019	47,730,000	-	775,000	46,955,000	795,000
Harrison Series 2009B	63,295,000	-	-	63,295,000	-
Harrison Series 2013A	42,240,000	-	6,190,000	36,050,000	6,510,000
Premium on bond	6,248,522	-	1,044,806	5,203,716	1,044,806
Laurel Series 2013B	13,520,000	-	2,015,000	11,505,000	2,095,000
Premium on bond	1,632,311	-	272,936	1,359,375	272,936
Madison Series 2013C	66,695,000	-	8,160,000	58,535,000	8,580,000
Premium on bond	9,627,247	-	1,379,152	8,248,095	1,379,152
Marshall Series 2012	31,420,000	-	9,985,000	21,435,000	10,420,000
Premium on bond	5,340,387	-	715,736	4,624,651	715,736
Marshall Series 2015B	36,130,000	-	1,670,000	34,460,000	1,760,000
Premium on bond	9,664	-	664	9,000	664
Marshall Series 2017	59,445,000	-	-	59,445,000	-
Premium on bond	8,993,422	-	1,200,457	7,792,965	1,200,457
Tunica Series 2012	16,070,000	-	2,910,000	13,160,000	3,055,000
Premium on bond	<u>2,033,394</u>	<u>-</u>	<u>451,866</u>	<u>1,581,528</u>	<u>451,866</u>
<b>Total</b>	<b>\$ <u>636,209,441</u></b>	<b><u>-</u></b>	<b><u>46,113,653</u></b>	<b><u>590,095,788</u></b>	<b><u>48,008,653</u></b>

The accompanying notes to the schedules are an integral part of this schedule.

**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**NOTES TO SCHEDULE OF CHANGES IN CAPITAL ASSETS AND  
SCHEDULE OF CHANGES IN NOTES PAYABLE  
JUNE 30, 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Measurement Focus, Basis of Accounting, and Schedule Presentation**

The Mississippi Department of Transportation (MDOT) is a state agency included in the State of Mississippi's Annual Comprehensive Financial Report. The accompanying schedule of changes in capital assets and schedule of changes in notes payable (the schedules) are derived from the government-wide accounting records of MDOT's selected general funds 3394100000 and 5394100000. The schedules are reported using the economic resources measurement focus and are on the accrual basis in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

**B. Capital Assets**

Capital assets are reported, net of depreciation, in the applicable governmental or business-type activities columns in the government-wide financial statements. Purchased or constructed capital assets are reported at cost. Donated capital assets are recorded at their acquisition value on the date of donation. Classes of capital assets and their related capitalization thresholds are: land - cost or acquisition value on the date of donation, software - \$1,000,000, buildings - \$50,000, land improvements - \$25,000, machinery and equipment - \$5,000, infrastructure - \$100,000, and construction in progress - based on the project's class. Infrastructure acquired prior to July 1, 1980 is not reported in the basic financial statements. The costs of normal maintenance and repairs that do not add to the value of capital assets or materially extend their respective lives are not capitalized. Interest expenditures are not capitalized on capital assets. Capital assets, excluding land and construction in progress, are depreciated using the straight-line method over the estimated service lives of the respective assets. Estimated service lives include 5 to 20 years for software, 40 years for buildings, 20 years for land improvements, 5 to 15 years for machinery and equipment, 3 years for computer equipment, 5 to 15 years for heavy and outdoor equipment, and 3 to 10 years for vehicles. The estimated service life varies from 12 to 50 years for infrastructure, based on the individual asset.

**C. Notes Payable**

Notes payable are presented at the face amount of the bonds outstanding plus or minus unamortized premiums or discounts. Bond premiums or discounts are amortized on the straight line basis over the life of the bonds.

**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**NOTES TO SCHEDULE OF CHANGES IN CAPITAL ASSETS AND  
SCHEDULE OF CHANGES IN NOTES PAYABLE  
JUNE 30, 2021**

**NOTE 2 - CAPITAL ASSETS**

Construction in progress is as follow:

	<u>Project Authorization</u>	<u>Expended To Date</u>	<u>Outstanding Commitment</u>
Land and building	\$ 14,418,991	10,868,723	5,064,634
Infrastructure	4,338,568,856	3,339,117,824	999,523,169
Total	<u>\$ 4,352,987,847</u>	<u>3,349,986,547</u>	<u>1,004,587,803</u>

**NOTE 3 - NOTES PAYABLE**

A. At June 30, 2021, MDOT's outstanding notes payable from direct borrowings are:

<u>Purpose</u>	<u>Outstanding Amount</u>	<u>Interest Rates</u>	<u>Final Maturity Date</u>	<u>Original Amount</u>
Roads and bridges	\$ 547,315,000	2% - 6.589%	Jan. 2040	\$ 864,490,000
Premium on bonds	42,780,788			
Total notes payable, net	<u>\$ 590,095,788</u>			

**B. Refundings and Defeased Notes**

In a previous year, MDOT entered into a financing agreement for the advance refunding of a \$43,135,000 portion of the 2014 highway project note payable. The net proceeds of the refunding debt were deposited into an irrevocable trust to be used solely for satisfying all future scheduled principal and interest payments on the refunded portion of the 2014 note payable. Accordingly, this resulted in an in-substance defeasance of the refunded portion of the 2014 note payable for financial reporting purposes, and the defeased portion of the 2014 note payable and the related trust account are not included in the accompanying schedule of changes in notes payable.

In a previous year, MDOT entered into a financing agreement for the advance refunding of a \$62,485,000 portion of the 2012 highway project note payable. The net proceeds of the refunding debt were deposited into an irrevocable trust account to be used solely for satisfying all future scheduled principal and interest payments on the refunded portion of the 2012 note payable. Accordingly, this resulted in an in-substance defeasance of the refunded

**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**NOTES TO SCHEDULE OF CHANGES IN CAPITAL ASSETS AND  
SCHEDULE OF CHANGES IN NOTES PAYABLE  
JUNE 30, 2021**

**NOTE 3 - NOTES PAYABLE - CONTINUED:**

**B. Refundings and Defeased Notes - continued:**

portion of the 2012 note payable for financial reporting purposes, and the defeased portion of the 2012 note payable and the related trust account are not included in the accompanying schedule of changes in notes payable.

At June 30, 2021, \$62,485,000 of the in-substance defeased 2012 note payable remained outstanding with a January 2022, call date, and \$43,135,000 of the in-substance defeased 2014 note payable remained outstanding with a January 2023, call date.

**C. At June 30, 2021, MDOT's future debt service requirements for notes payable are:**

Fiscal Year Ending <u>June 30,</u>	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2022	\$ 41,565,000	30,856,036
2023	49,970,000	30,359,874
2024	45,090,000	22,558,511
2025	47,215,000	20,750,251
2026	52,485,000	18,455,940
2027-2031	161,395,000	65,177,287
2032-2036	104,490,000	29,609,574
2037-2040	45,105,000	5,935,392
Total	547,315,000	223,702,865
Premiums	42,780,788	-
Total debt service, net	\$ <u>590,095,788</u>	<u>223,702,865</u>

**D. Debt Service**

A reconciliation of reductions/payments in the accompanying schedule of changes in notes payable to debt service included in MDOT's statement of revenues, expenditures, and changes in fund balances of the selected general funds is as follows:

Reductions/payments per schedule	\$ 46,113,653
Current amortization of premium	(6,443,653)
Principal payments on capital lease obligations	<u>743,520</u>
Total debt service - principal	\$ <u>40,413,520</u>



**STATE OF MISSISSIPPI  
DEPARTMENT OF TRANSPORTATION**

**NOTES TO SCHEDULE OF CHANGES IN CAPITAL ASSETS AND  
SCHEDULE OF CHANGES IN NOTES PAYABLE  
JUNE 30, 2021**

**NOTE 4 - SUBSEQUENT EVENTS**

MDOT has evaluated subsequent events through February 14, 2022, the date the schedules were approved by MDOT's management and thereby available to be issued, and has determined that there are no subsequent events of a material nature requiring adjustment to or disclosure in the accompanying schedules.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS**

To the Mississippi Department of Transportation and  
Mississippi Transportation Commission  
401 North West Street  
Jackson, MS 39201

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, selected general funds 3394100000 and 5394100000 (the financial statements) of the Mississippi Department of Transportation (MDOT), as of and for the year ended June 30, 2021, and the related notes to the financial statements, and have issued our report thereon dated February 14, 2022 which contained an unmodified opinion with an Other Matter paragraph regarding the omission of management's discussion and analysis. We have also audited the schedule of changes in capital assets and schedule of changes in notes payable (the schedules) as of and for the year ended June 30, 2021, and the related notes to the schedules and have issued our report thereon dated February 14, 2022.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements and the schedules, we considered MDOT's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements and the schedules, but not for the purpose of expressing an opinion on the effectiveness of MDOT's internal control. Accordingly, we do not express an opinion on the effectiveness of MDOT's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Internal Control over Financial Reporting - continued:**

Our consideration of internal control was for the limited purpose described in the first paragraph of this letter and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the financial statements and schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements and schedules. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Huddox Reed Embank Better PLLC*

Jackson, Mississippi  
February 14, 2022



**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**SHAD WHITE**  
**STATE AUDITOR**

September 23, 2022

**Single Audit Management Report**

Brad White, Executive Director  
Mississippi Department of Transportation  
P.O. Box 1850  
Jackson, MS 39215

Dear Mr. White:

Enclosed for your review is the single audit findings for the Mississippi Department of Transportation for Fiscal Year 2021. In these findings, the Auditor's Office recommends the Mississippi Department of Transportation:

Single Audit Findings

1. Strengthen Controls to Ensure Compliance with Subrecipient Monitoring Requirements.
2. Strengthen Controls to Ensure Compliance with Wage Rate Requirements.
3. Strengthen Controls to Ensure Compliance with Special Test Requirements Related to the Quality Assurance Program.

Other Audit Findings

4. Strengthen Controls Over Allowable Costs Requirements.

Please review the recommendations and submit a plan to implement them by September 30, 2022. The enclosed findings contain more information about our recommendations.

During future engagements, we may review the findings in this management report to ensure procedures have been initiated to address these findings.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance on each major federal program and the results of that testing based on the requirements of *Office of Management and Budget's Uniform Guidance*. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

I hope you find our recommendations enable the Mississippi Department of Transportation to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Department of Transportation. If you have any questions or need more information, please contact me.

Sincerely,

A handwritten signature in blue ink that reads "Stephanie C. Palmertree". The signature is written in a cursive, flowing style.

Stephanie C. Palmertree, CPA, CGMA  
Deputy State Auditor  
Office of the State Auditor  
Enclosures

## **SINGLE AUDIT FINDINGS**

In conjunction with our audit of federal assistance received by the State of Mississippi, the Office of the State Auditor has completed its audit of the State's major federal programs administered by the Mississippi Department of Transportation for the year ended June 30, 2021.

Our procedures and tests cannot and do not provide absolute assurance that all federal legal requirements have been met. In accordance with *Section 7-7-211, Mississippi Code Annotated (1972)*, the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

### **Report on Compliance for Each Major Federal Program**

We have audited the Mississippi Department of Transportation's compliance with the types of compliance requirements described in the *Office of Management and Budget (OMB) Uniform Guidance Compliance Supplement* that could have a direct and material effect on the federal programs selected for audit that are administered by the Mississippi Department of Transportation for the year ended June 30, 2021.

### **Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the State of Mississippi's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and *Uniform Guidance* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Mississippi Department of Transportation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. However, our audit does not provide a legal determination of the Mississippi Department of Transportation's compliance.

### **Results of Compliance Audit Procedures**

The results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with *Uniform Guidance* and which are identified in this letter as items **2021-019**, **2021-020** and **2021-021**.

### **Internal Control over Compliance**

Management of the Mississippi Department of Transportation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Mississippi Department of Transportation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal controls over compliance in accordance with *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of internal control over

compliance. Accordingly, we do not express an opinion on the effectiveness of Mississippi Department of Transportation's internal control over compliance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal controls that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance identified in this letter as items 2021-019 and 2021-020 to be material weaknesses.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance identified in this letter as item 2021-021 to be a significant deficiency.

In addition, we noted a deficiency in internal control over compliance that require the attention of management that we have reported as item OTH-2021-002.

## **Findings and Recommendations**

### **SUBRECIPIENT MONITORING**

#### ***Material Weakness***

#### ***Material Noncompliance***

<b>2021-019</b>	<u>Strengthen Controls to Ensure Compliance with Subrecipient Monitoring Requirements.</u>
<b>ALN Number</b>	20.205 – Highway Planning and Construction
<b>Federal Award No.</b>	All Current Active Grants
<b>Federal Agency</b>	United State Department of Transportation
<b>Pass-through Entity</b>	N/A
<b>Questioned Costs</b>	N/A
<b>Criteria</b>	<i>Code of Federal Regulations (2 CFR §200.331(f))</i> states all pass-through entities (PTE's) must verify that every subrecipient is audited as required by Subpart F - Audit Requirements when it is expected that the subrecipient's Federal awards expended during the fiscal year equaled or exceeded the threshold—a non-Federal entity that expends \$750,000 or more during the non-Federal entity's

fiscal year in Federal awards must have a single audit conducted—set forth in § 200.501 *Audit requirements*.

*Code of Federal Regulations (2 CFR § 200.512(a)(1))* states the audit must be completed and the data collection form and reporting package must be submitted within the **earlier of** 30 calendar days after receipt of the auditor's report(s), **or** nine months after the end of the audit period. If the due date falls on a Saturday, Sunday, or Federal holiday, the reporting package is due the next business day.

*Code of Federal Regulations (2 CFR § 200.512(a)(2)(b))* states the Federal Audit Clearinghouse (FAC) is the repository of record for Subpart F – Audit Requirements reporting packages and the data collection form. All Federal agencies, pass-through entities and others interested in a reporting package and data collection form must obtain it by accessing the FAC.

*Code of Federal Regulations (2 CFR § 200.332(d)(2))* states the PTE must follow up ensuring that the Subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and written confirmation from the subrecipient, highlighting the status of actions planned or taken to address Single Audit findings related to the particular subaward.

*Code of Federal Regulations (2 CFR § 200.332(d)(3))* states the PTE must issue a management decision for applicable audit findings pertaining only to the Federal award provided to the subrecipient from the PTE as required by § 200.521.

## Condition

Based on conversations with management, the Mississippi Department of Transportation (MDOT) is not reviewing Subrecipient submitted Single Audit reports to determine if the subrecipient submitted a current report within nine months of year-end; nor is MDOT reviewing the reports within six months of acceptance to the FAC. MDOT only reviews reports available at the time of application and award to perform pre-award risk assessments.

During review of one 2019 Federal Year End submitted Single Audit Report of a subrecipient with MDOT as the PTE, we noted the Single Audit report identified a material weakness for Assistance Listing Number 20.205 due to the subrecipient requesting reimbursements prior to actual payment of project costs. MDOT did not issue a management decision regarding a material weakness noted.

Failure to review submitted reports timely resulted in MDOT improperly complying with OMB subrecipient monitoring requirements.

## Cause

MDOT's current policy is to only review submitted Single Audit reports submitted by subrecipients during the request of future funding by Local Public Agencies and not for post-award monitoring. MDOT is not reviewing submitted Single Audit reports during the required six month period after subrecipient files single audit to the FAC.



<b>Effect</b>	Without proper monitoring of subrecipients' submitted federal reports, subrecipients may participate in unallowable activities that go undetected by MDOT, the grantor.
<b>Recommendation</b>	We recommend the Mississippi Department of Transportation strengthen controls to ensure compliance with the Subrecipient Monitoring requirements.
<b>Repeat Finding</b>	No.
<b>Statistically Valid</b>	No.

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## SECIAL TEST & PROVISIONS – WAGE RATE

### *Material Weakness*

### *Material Noncompliance*

**2021-020** Strengthen Controls to Ensure Compliance with Wage Rate Requirements.

**ALN Number** 20.205 – Highway Planning and Construction

**Federal Award No.** All Current Active Grants

**Federal Agency** United States Department of Transportation

**Pass-through Entity** N/A

**Questioned Costs** N/A

**Criteria** *Code of Federal Regulations (29 CFR § 3.3(b) Labor)* requires each contractor or subcontractor engaged in the construction, prosecution, completion, or repair of any public building or public work, or building or work financed in whole or in part by loans or grants from the United States, shall furnish each week a statement with respect to the wages paid each of its employees engaged on work covered by part 3 and part 5 of this title during the preceding weekly payroll period. This statement shall be executed by the contractor or subcontractor or by an authorized officer or employee of the contractor or subcontractor who supervises the payment of wages, and shall be on the back of Form WH 347, "Payroll (For Contractors Optional Use)" or on any form with identical wording.

*Code of Federal Regulations (29 CFR § 3.4(a) Labor)* requires each weekly statement required under §3.3 shall be delivered by the contractor or subcontractor, within seven days after the regular payment date of the payroll period, to a representative of a Federal or State agency in charge at the site of the building or work, or, if there is no representative of a Federal or State agency at the site of the building or work, the statement shall be mailed by the contractor or subcontractor, within such time, to a Federal or State agency contracting for or financing the building or work.

**Condition** The Mississippi Department of Transportation (MDOT) is not requiring contractors or subcontractors to submit within seven days after the regular

payment date of the payroll period a statement with respect to the wages paid to each of its employees engaged in federal projects.

MDOT was unable to correct prior year finding 2020-034 due to timing of MDOT's submitted corrective action plan dated June 29, 2021. MDOT denoted in submitted corrective action plan that estimated completion of corrective action would occur by August 1, 2021. MDOT also stated in submitted summary schedule of prior federal audit findings dated June 21, 2022, that the prior year finding was fully corrected. However, due to the corrective action occurring after fiscal year 2021 year-end, Auditor was unable to determine if MDOT's corrective action was properly implemented for fiscal year 2021.

<b>Cause</b>	Before submission of MDOT's corrective action plan dated June 29, 2021, MDOT's current standard practice of requiring payroll submissions to be current by the first week of monthly estimates allows contractor submissions to be later than the seven-day submission requirement.
<b>Effect</b>	Failure to review contractor or subcontractor submitted payroll forms timely may result in improper payment of wage rates, work performed, and/or abuse of federal funds.
<b>Recommendation</b>	We recommend the Mississippi Department of Transportation strengthen controls to ensure compliance with federal wage rate requirements.
<b>Repeat Finding</b>	Yes, 2020-034.
<b>Statistically Valid</b>	No.

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## **SPECIAL TEST & PROVISIONS – QUALITY ASSURANCE PROGRAM**

### ***Significant Deficiency Immaterial Noncompliance***

<b>2021-021</b>	<u>Strengthen Controls to Ensure Compliance with Special Test Requirements Related to the Quality Assurance Program.</u>
<b>ALN Number</b>	20.205 – Highway Planning and Construction
<b>Federal Award No.</b>	All Current Active Grants
<b>Federal Agency</b>	United States Department of Transportation
<b>Pass-through Entity</b>	N/A
<b>Questioned Costs</b>	N/A
<b>Criteria</b>	The <i>Code of Federal Regulations (23 CFR § 637.205(a) Quality assurance program)</i> requires each State Transportation Department shall develop a quality assurance program which will assure that the materials and workmanship incorporated into each Federal-aid highway construction project on the National Highway System are in conformity with the requirements of the approved plans

and specifications, including approved changes. The program must meet the criteria in § 637.207 and be approved by the Federal Highway Administration.

The Mississippi Department of Transportation's (MDOT) Independence Assurance Sampling (IAS) personnel are to follow the schedule set for sample size, frequency of sampling and the designation of responsibility for sampling and testing set by MDOT's S.O.P. No.: TMD-06-02-00-000.

The *Internal Control – Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the *U.S. Government Accountability Office Standards for Internal Control in the Federal Government* (Green Book) specify control activities- “As part of delegating authority, management evaluates the delegation for proper segregation of duties within the unit and in the organizational structure. Segregation of duties helps prevent fraud, waste, and abuse.”

<b>Condition</b>	<p>During review of MDOT's Quality Assurance Program, we identified the following:</p> <ul style="list-style-type: none"><li>• Twenty (20) instances, out of 100 sampling records selected for testing, in which the selected sample was completed, reviewed, and authorized by the same employee. We noted three (3) samples were coded incorrectly resulting in the IAS sample not appearing on the TMD -891 report. The TMD-891 report denotes all IAS samples taken for a project and states whether the sample was favorable or non-favorable when compared to the appropriate Job Control Acceptance sample. We also noted one (1) sample was incorrectly labeled as an IAS sample.</li><li>• Two (2) instances, out of fifty (50) IAS sample records selected for testing, in which IAS personnel did not meet the minimum sampling guidelines.</li></ul>
<b>Cause</b>	<p>MDOT staff failed to follow the policies and procedures related to the sampling rates of materials used in federal projects. Also, MDOT staff failed to adhere to proper segregation of duties, relating to review and authorization of lab reports.</p>
<b>Effect</b>	<p>If the minimum sampling rate is not met as required by MDOT policies that are approved by FHWA, materials used in federal projects may fail to meet required federal standards. Also, lab reports being completed, reviewed, and authorized by the same employee could result in improper sampling, or incomplete tests or inaccurate tests.</p>
<b>Recommendation</b>	<p>We recommend the Mississippi Department of Transportation strengthen controls over their Quality Assurance Program.</p>
<b>Repeat Finding</b>	<p>No.</p>
<b>Statistically Valid</b>	<p>No.</p>

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## ALLOWABLE COSTS

***Control Deficiency***

<b>OTH-2021-002</b>	<u>Strengthen Controls Over Allowable Costs Requirements.</u>
<b>ALN Number</b>	20.205 – Highway Planning and Construction
<b>Federal Award No.</b>	All Current Active Grants
<b>Federal Agency</b>	United States Department of Transportation
<b>Pass-through Entity</b>	N/A
<b>Questioned Costs</b>	N/A
<b>Criteria</b>	The <i>Internal Control – Integrated Framework</i> , published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the <i>U.S. Government Accountability Office Standards for Internal Control in the Federal Government</i> (Green Book) specify control activities- “Personnel with sufficient authority perform control activities with diligence and continuing focus.”
<b>Condition</b>	During review of sixty-four (64) payments to contractors, we identified six (6) instances in which the contractor’s estimate (CAD-001) contained no evidence of review by Financial Management Division (FMD).
<b>Cause</b>	The Mississippi Department of Transportation (MDOT) employee who normally reviewed submitted support for payments to contractors was absent from work, and the replacement did not file a reviewed copy of the contractor’s estimate.
<b>Effect</b>	Without proper FMD review of contractor’s estimates, information such as vendor name and number, project number, or dollar amount could be entered into the Financial Management System (FMS) incorrectly, leading to a misstatement of expenditures.
<b>Recommendation</b>	We recommend the Mississippi Department of Transportation strengthen controls over review procedures relating to payments to contractors.
<b>Repeat Finding</b>	No.
<b>Statistically Valid</b>	No.

**End of Report**



**STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR  
SHAD WHITE  
STATE AUDITOR**

**Auditor's note to the Corrective Action Plan from Mississippi Department of Transportation (MDOT) Management**

**Department of Transportation – Special Test & Provisions – Wage Rate - *Material Weakness/Material Noncompliance***

**2021-020      Strengthen Controls to Ensure Compliance with Wage Rate Requirements**

MDOT states that their Contract Administration Department (CAD) does not have control over when the contractors or subcontractors submit their weekly statements or when the warrants are issued to contractors. However, the Code of Federal regulations (as quoted in the finding) requires that MDOT retain control over those very things. Even though MDOT did not concur with the finding, they provided some type of corrective action to help mitigate the issue and OSA will verify that these actions were taken by MDOT in a future audit.

**Department of Transportation – Special Test & Provisions – Quality Assurance Program - *Significant Deficiency/Immaterial Noncompliance***

**2021-021      Strengthen Controls to Ensure Compliance with Special Test Requirements Related to the Quality Assurance Program**

Based on the Corrective Action Plan, MDOT provided pending corrective action for part of the finding and appeared to concur, even though they stated they did not concur with the finding. They did not provide pending corrective action for the portion of the finding for the 20 instances in which the sample was completed, reviewed, and authorized by the same employee.

MDOT states that the review and authorization of the sample items are not practicable to be segregated; however, MDOT provided no compensating controls to help ensure that sampling records are accurate, complete, authorized, or entered into the database correctly. It should be noted that MDOT personnel incorrectly coded sampling information four times out of 20. Some type of additional control procedure to ensure that the sampling information is correct could prevent further errors.



**Brad White**  
Executive Director

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**Brian D. Ratliff**  
Deputy Executive Director/Chief Engineer  
**Lisa M. Hancock**  
Deputy Executive Director/Administration  
**Charles R. Carr**  
Director, Office of Intermodal Planning

## **SINGLE AUDIT FINDINGS**

October 21, 2022

Shad White, State Auditor  
Office of the State Auditor  
State of Mississippi  
P.O. Box 956  
Jackson, MS 39205-0956

Dear Mr. White:

We have received the Single Audit Management Report and the following details our response to the Audit Findings for fiscal year 2021:

### **AUDIT FINDINGS:**

#### **CFDA**

**Number** 20.205 – Highway Planning and Construction

#### **Compliance**

**Requirement** Subrecipient Monitoring

**2021-019** **Strengthen Controls to Ensure Compliance with Subrecipient Monitoring Requirements**

**Response:** MDOT concurs with this finding.

### **Corrective Action Plan:**

- A. To internal audit division has implemented procedures beginning fiscal year 2022 (FY 2020 audit reports) to perform follow up review, in addition to the single audit certification, to determine if a management letter should be issues for any reported findings that are related to the MDOT
- B. Emily Harrington, CPA – Director of Internal Audit
- C. June 8, 2022



**CFDA**

**Number**        **20.205 – Highway Planning and Construction**

**Compliance**

**Requirement** **Special Test & Provisions – Wage Rate**

**2021-020**        **Controls Should Be Strengthened to Ensure Compliance with Wage Rate Requirements**

**Response:**     MDOT does not concur with this finding.

While MDOT's Contract Administration Division (CAD) does not have control when the contractors or subcontractors submit their weekly statement(s), Contract Administration Division does have control over the issuance of warrants to contractors. Contract Administration Division has complied with its previous 2019 corrective action plan to ensure no estimate is processed for payment with delinquent payrolls outstanding. See the 2020 corrective action plan below.

**Corrective Action Plan:**

- A. Contract Administration Division is preparing two (2) flyers outlining the requirements for timely payroll submissions to the department. One flyer will be sent to all Prime Contractors with their executed contracts, reminding them of their contractual requirements to timely submit payrolls each week (no later than seven (7) days from the end of each payroll period). It will also remind Prime Contractors that they are responsible for the timely submission of all payrolls from their subcontractors as well.

The second flyer will be sent to all Project Engineers with each project they are assigned. It will remind them of their responsibility to require the Prime Contractors to submit their weekly payrolls in a timely manner (no later than seven (7) days from the end of each payroll period) and to keep their project records up to date.

In addition, the CAD Contract Compliance Officer will include the following statement in correspondence with the Project Engineers and/or their payroll designees when contacting MDOT staff regarding payrolls.

*As required in Section 110 of the Standard Specifications and the FHWA-1273, Prime Contractors are required to submit their weekly payrolls to you weekly (no later than seven (7) days) from the end of each payroll period. The Prime Contractor is responsible for the timely submission of all payrolls by its subcontractors. If the Prime Contractor is not in compliance with these requirements, please notify them in writing that*



*they are out of compliance with the state specifications and federal regulations. Failure to comply with the requirements may result in suspension of work and/or withholding of payment until they are in compliance with the requirements.*

B. All Project Engineers and/or their Payroll Designees  
Paul Campbell, Compliance Officer

C. August 1, 2021

D. Under current practices, in every instance, including the 40 that were denoted in the findings, there were no instances where employees were paid a wage less than the minimum required by Davis Bacon. Additionally, there were no instances of abuse of federal funds since Contract Administration Division does not pay a contractor if payrolls are delinquent per the definition in Section 110 of the Mississippi Standard Specification for Road & Bridge Construction.

#### **MDOT Standard Specifications, 2017 Edition**

*110.02.1--Statements and Payrolls. The Contractor and Subcontractors shall submit weekly copies of all payrolls to the Project Engineer and meet the requirements of U. S. Department of Transportation Form FHWA 1273, on projects constructed in whole or in part with Federal funds.*

*The Contractor shall make all efforts necessary to submit this information to the Project Engineer weekly. The Engineer will have the authority to suspend the work wholly or in part and to withhold payments if the Contractor fails to submit the required information. Submission of forms and payrolls shall be current through the first full week of the month for the estimate period in order for the Project Engineer to process an estimate.*

It should be noted that the Contract Administration Division does not have the authority to suspend the work of the Contractor or to withhold payments. Only the Project Engineer has this authority and they report to a District Engineer which Contract Administration Division has no authority over as well.

**CFDA**

**Number**      **20.205 – Highway Planning and Construction**

**Compliance**

**Requirement** **Special Test & Provisions – Quality Assurance Program**

**2021-021**      **Strengthened Controls to Ensure Compliance with Special Test Requirements Related to the Quality Assurance Program**

**Response:**      MDOT does not concur with this finding.

**Corrective Action Plan:**

- A. a. Report 1<sup>st</sup> bullet point: “Twenty (20) instances, out of 100 sampling records selected for testing, in which the selected sample was completed, reviewed, and authorized by the sample employee. We noted three (3) samples were coded incorrectly resulting in the IAS sample not appearing on the TMD-891 report. The TMD-891 report denotes all IAS samples taken for a project and states whether the sample was favorable or non-favorable when compared to the appropriate Job Acceptance Sample. We also noted one (1) sample was incorrectly labeled as an IAS sample.”

No corrective action is needed for the 20 out of 100 instances where the same employee completed and authorized a sample. According to Sections 10.2 through 10.14 of the Internal Control – Integrated Framework, published by the Committee of Sponsoring Organizations of Treadway Commission (COSO), segregation of duties is a function of design control activities within an organization, and management is to consider segregation of duties to a practical extent. Additionally, if segregation of duties is not practical due to limited personnel or other factors, then management is to develop alternative control activities to reduce risk. There are some MDOT samples that have special circumstances in which it is not practical for a separate individual to authorize the sample in SiteManager. In these special circumstances, a single individual is entering data that represents a visual observation or data entry from a specialized test. Having a second individual authorize these samples brings no value with respect to internal controls because the second individual did not personally witness the observation or completion of the specialized test. As such, MDOT has alternative control activities in place to ensure proper material testing in these cases. The project engineer monitors material testing throughout the project and completes the TMD-725 report at the end of the project. Other project close-out procedures as described in Materials Division’s narrative are also in place to ensure proper material testing. In response to this finding, Materials Division staff will have a conversation with Mississippi FHWA Division office regarding their opinion of “proper segregation of duties” with respect to material sampling and testing.



IAS staff have been reminded of the importance of adhering to the standardized sample identification format for reports to accurately display all information. District Materials Engineers have been reminded to instruct their employees to pay close attention to the sample type selection when entering samples.

b. Report 2<sup>nd</sup> bullet point: "Two (2) instances, out of fifty (50) IAS sample records selected for testing, in which IAS personnel did not meet minimum sampling guidelines."

MDOT is currently following a revised SOP TMD-06-02-00-000 that allows flexibility to increase or decrease IAS testing frequencies due to project specific conditions. IAS staff have been reminded to update their sampling checklists on a regular basis as Project Offices update installed quantities. MDOT is not planning any more Metric projects; therefore, unit conversions will not be an issue.

- B. Alan Kegley, P.E. Assistant State Materials Engineer - Field Operations
- C. Conversations with Mississippi FHWA Division office is expected to take place before the end of 2022. The corrective action to remind IAS staff to adhere to the standardized sample identification format and also to frequently update sampling checklists has been completed. Corrective action to remind District staff of the importance of properly selecting the sample type has been completed.
- D. Corrective action is not necessary for the 20 out of 100 instances where the same employee completed and authorized a sample in SiteManager. There are several specialized tests and observations where it is not practical for MDOT to have a separate individual authorize the sample in SiteManager. Other alternative control activities are in place to reduce risk.

Sincerely,



Brad White  
Executive Director

BW: trb

cc: Lisa Hancock, CPA - Deputy Executive Director/Administration  
Brian Ratliff, P.E. - Deputy Executive Director/Chief Engineer

**Brad White**  
Executive Director

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**Brian D. Ratliff**  
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Director, Office of Intermodal Planning

## **OTHER AUDIT FINDING**

October 21, 2022

Shad White, State Auditor  
Office of the State Auditor  
State of Mississippi  
P.O. Box 956  
Jackson, MS 39205-0956

Dear Mr. White:

We have received the Single Audit Management Report and the following details our response to the Audit Finding for fiscal year 2021:

### **AUDIT FINDING:**

#### **CFDA**

**Number**      **20.205 – Highway Planning and Construction**

#### **Compliance**

**Requirement** **Allowable Costs**

**OTH-2021-00** **Strengthen Controls Over Allowable Costs Requirements**

**Response:**      MDOT concurs with this finding.

### **Corrective Action Plan:**

- A. 1) Process an Information Systems help desk request to make the following changes to the final CN document in FMS.

The date and time stamp finalizing the Financial Management review process only with the name of the accountant providing the review will be printed on the CN document as confirmation of review and approval. (Information is currently stored in the FMS System, the only change is to capture this information on the CN document itself.)

- 2) Update the Payments to Contractors and Projects Let narrative to reflect the utilization of electronic processes as final review for payment of contractor and project documents.

B. Charles Riddell, Project & Permit Accounting Manager  
Melinda Lott, Deputy Director, Financial Management Division

C. December 31, 2022

Sincerely,



Brad White  
Executive Director

BW: trb

cc: Lisa Hancock, CPA - Deputy Executive Director/Administration  
Brian Ratliff, PE - Deputy Executive Director/Chief Engineer